

Message Text

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ACTION EB-08

INFO OCT-01 NEA-11 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 FRB-03 H-01 INR-10 INT-05 L-03
LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05 SS-15
STR-07 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02 OMB-01
DOE-15 STRE-00 /125 W
-----021151 311341Z /42

R 311238Z MAY 78
FM USMISSION GENEVA
TO SECSTATE WASHDC 0246
INFO AMEMBASSY TEL AVIV

LIMITED OFFICIAL USE SECTION 01 OF 02 GENEVA 08284

PASS STR ELECTRONICALLY
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E.O. 11652: N/A
TAGS: ETRD, GATT, IS
SUBJECT: GATT BOP CONSULTATIONS WITH ISRAEL

REF: STATE 135547

1. SUMMARY: BOP COMMITTEE CONDUCTED BIENNIAL CONSULTATION WITH ISRAEL MAY 29. SYMPATHETIC REVIEW CONCLUDED WITH COMMITTEE CONGRATULATING ISRAELIS FOR EXTENT OF TRADE LIBERALIZATION ALREADY ACCOMPLISHED AND WELCOMING RECENT IMPROVEMENT IN BOP AND ISRAELI STATEMENT THAT IMPORT RESTRICTIONS WOULD NOT BE USED TO REDUCE TRADE DEFICIT. COMMITTEE RECOGNIZED THAT LOW LEVEL OF RESERVES, LARGE TRADE DEFICIT AND HEAVY DEBT BURDEN REPRESENT CONTINUED SOURCES OF UNCERTAINTY BUT CALLED ON ISRAEL TO CONSIDER POSSIBILITY OF FURTHER SHORTENING LIST OF PRODUCTS SUBJECT TO LICENSING. END SUMMARY.

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2. IMF SPOKESMAN (NOWZAD) LED OFF WITH SUBSTANTIALLY SAME PRESENTATION CONTAINED IN EB/CGATT/78/2. HE STRESSED THAT "WHOLESALE LIBERALIZATION" OF TRADE POLICY ISRAEL HAS ACHIEVED IN LAST TWO YEARS IS ALMOST UNPRECEDENTED IN SUCH A SHORT PERIOD, THAT ADOPTION OF A FLEXIBLE EXCHANGE RATE WAS KEY TO BOP TURNAROUND, BUT THAT SITUATION REMAINS PRECARIOUS UNLESS IMPROVEMENT CAN BE

MAINTAINED.

3. PER INSTRUCTIONS REFTTEL, USDEL CONGRATULATED ISRAEL ON TRADE LIBERALIZATION AND IMPROVEMENT IN ITS EXTERNAL ACCOUNTS. NOTING THAT ISRAELI SUCCESS PROVIDES AN EXAMPLE OF OTHER WAYS TO REMEDY BOP PROBLEMS BESIDES IMPOSING IMPORT RESTRICTIONS, HE EXPRESSED HOPE THAT RECENT TRENDS WOULD CONTINUE AND PERMIT ELIMINATION OF REMAINING QRS.

4. ISRAELI SPOKESMAN (AMB. HARAN) REFERRED TO BASIC DOCUMENT (GATT/BOP/187) AND STRESSED THAT THERE ARE TWO CRUCIAL FEATURES OF ISRAELI SITUATION WHICH FALL OUTSIDE TRADITIONAL GATT FRAMEWORK FOR BOP CONSULTATIONS. THESE ARE "THE OVERRIDING IMPERATIVE OF DEFENSE NEEDS" AND THE CONTINUING ECONOMIC AND FINANCIAL BURDEN ASSOCIATED WITH PROVIDING A HAVEN FOR THOUSANDS OF NEW IMMIGRANTS EVERY YEAR. HE SOUGHT TO PLACE 1977 CURRENT ACCOUNT DEFICIT (\$2.7 BILLION) IN PERSPECTIVE BY COMPARING IT WITH TOTAL MERCHANDISE EXPORTS (\$2.8 BILLION) AND POPULATION (3.7 MILLION). HE EMPHASIZED THAT CURRENT ACCOUNT DEFICIT HAS BEEN FINANCED BY BORROWING ABROAD AS WELL AS BY AID FROM FOREIGN PRIVATE AND OFFICIAL SOURCES, BUT THAT "THE MOST IMPORTANT INDICATOR OF OUR BOP SITUATION" IS FACT THAT ANTICIPATED EXTERNAL DEBT OF ISRAEL BY END OF 1978, AT \$11.2 BILLION, WILL BE EQUIVALENT TO ESTIMATED GROSS NATIONAL PRODUCT FOR THE LIMITED OFFICIAL USE

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YEAR.

5. AGAINST THIS BACKGROUND HE PORTRAYED OCTOBER 1977 TRADE LIBERALIZATION MEASURES (SUMMARIZED IN PARA 6, BOP/187) AS AN "AUTO-DA-FE" OR ACT OF FAITH IN THE FUTURE OF ISRAEL'S ECONOMY AND OF THE WORLD TRADING SYSTEM. THIS "NEW ECONOMIC POLICY" REPRESENTS A WATERSHED, RESULTING FROM INSTALLATION OF A NEW GOVERNMENT WITH AN ECONOMIC PHILOSOPHY STRESSING RELIANCE ON MARKET FORCES RATHER THAN IMPORT RESTRAINTS TO DEAL WITH TRADE DEFICITS. ISRAEL IS COMMITTED TO FURTHER TRADE LIBERALIZATION AND TO SEEKING A SUCCESSFUL RESULT IN THE MTN.

6. INFLATION: IN DISCUSSION WHICH FOLLOWED, HARAN ACKNOWLEDGED THE INFLATION RATE IS EXPECTED TO BE OVER 30 PERCENT IN 1978 BUT COULD ONLY "GUESS" THAT IT MIGHT REACH 40 PERCENT. GOVERNMENT HAS ACTED TO LIMIT PRICE INCREASES STEMMING FROM A 45 PERCENT EFFECTIVE DEVALUATION OF THE CURRENCY, AND HAS REACHED AN UNWRITTEN AGREEMENT WITH UNIONS TO LIMIT WAGE DEMANDS TO 15 PERCENT. ANTICIPATED GOVERNMENT EXPENDITURES HAVE BEEN REDUCED BY SEVEN BILLION POUNDS, BUT THE FINAL EFFECTS

ON INFLATION CANNOT YET BE PREDICTED. IF INFLATION CAN BE RESTRAINED, HE ANTICIPATED A POSITIVE EFFECT ON REAL WAGES AND A CONSEQUENT STIMULUS TO DEMAND.

7. DEBT: CAPITAL INFLOWS OF OVER \$4 BILLION LAST YEAR ADDED \$400 MILLION TO ISRAEL'S DEBT SERVICE BURDEN. HARAN ACKNOWLEDGED THAT ISRAEL CANNOT GO ON LIVING BY BORROWING, BUT POINTED OUT THAT DEMANDS FOR DEFENSE AND IMMIGRANT NEEDS CONTINUE REGARDLESS OF ECONOMIC POLICY.

8. EXCHANGE RATE CHANGES: HARAN HAD NO FORECAST OF TRADE EFFECTS OF THE NEW ECONOMIC POLICY. HIS AUTHORITIES "HOPE" THAT RISING EXPORTS WILL CLOSE THE TRADE GAP IN FIVE YEARS. THE RECENT CURRENCY DEPRECIATION TOGETHER LIMITED OFFICIAL USE

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WITH ELIMINATION OF THE PRACTICE OF REBATING INDIRECT TAXES HAS LEFT ISRAELI EXPORTERS NEITHER BETTER OFF NOR WORSE OFF THAN PREVIOUSLY, IN HIS OPINION. THE DEPRECIA-

TION HAS PROVIDED A STRONG BOOST TO TOURISM, HOWEVER.
CURRENCY DEPRECIATION HAS BEEN RUNNING AT LESS THAN THE
2 PERCENT PER MONTH MAXIMUM FORESEEN UNDER THE PREVIOUS
SYSTEM OF SMALL PERIODIC DEVALUATIONS.

9. MISCELLANEOUS: IN RESPONSE TO OTHER QUESTIONS,
HARAN SAID HIS AUTHORITIES HOPE FOR A 4 PERCENT RISE IN
REAL INCOME THIS YEAR, AND HAVE INCREASED INCENTIVES FOR
BOTH DOMESTIC AND FOREIGN CAPITAL INVESTMENT. HE
ACKNOWLEDGED THAT BARRIERS TO ISRAELI EXPORTS, IN PARTI-
CULAR THE BOYCOTT MAINTAINED EVEN BY SOME CONTRACTING
PARTIES, CONSTITUTE MAJOR NON-TARIFF BARRIERS BUT DID
NOT BELABOR THE POINT. HE ESTIMATED THAT REMAINING
LICENSING REQUIREMENTS AFFECT ABOUT 20 PERCENT OF
ISRAEL'S IMPORTS BUT POINTED OUT THAT THIS TRADE STILL
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IS SUBSTANTIAL SINCE LICENSING SERVES ONLY TO LIMIT
RATHER THAN PREVENT IMPORTS. HE WAS UNABLE TO ESTIMATE
POSSIBLE EFFECT ON TRADE OF ELIMINATING ALL LICENSING
REQUIREMENTS. VANDEN HEUVEL

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